

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

The Government of India has announced new procedures for allocating the unshipped portion (an estimated 1.7 million bales) of its 4.3 million bale export quota for the 2010/2011 (Oct/Sep) local marketing year. Exporters have until January 6 to submit their applications for export authorizations and will have 30 days to ship their cotton from the date of issuance of a permit, but no exports will be allowed after February 25, 2011. The estimate of 2010/2011 cotton production remains unchanged at 26 million bales. Unseasonal rains in Gujarat and Andhra Pradesh during the early stages of harvest have dampened some of the earlier optimism about a larger crop. The Cotton Advisory Board is expected to meet in January to review the new crop situation.

General Information:

Author Defined:

SITUATION AND OUTLOOK

Government Establishes and Export Quota

On September 18, 2010, the Empowered Group of Ministers, representing officials from a variety of ministries with oversight of Indian cotton and textile industries, established an export quota of 4.3 million bales (5.5 million Indian bales of 170 kg) for the October 1, 2010 to September 30, 2011 local marketing year. The Textile Commissioner's Office (TCO) was charged with administering the quota and exporters were invited to register export contracts on a first-come, first-served basis against the quota beginning October 1, 2010. The TCO stopped accepting export registration requests on October 10, 2010, as registered export contracts reached 4.3 million bales. After review of the applications, the TCO issued Export Authorization Registration Certificates (EARC) for 4.01 million bales (3.92 million bales raw cotton and 94,000 bales of cotton waste). The shipment period for registered contracts with valid EARC was November 1 to December 15, 2010; EARC expired on December 15, 2010, and no exports beyond that date were permitted.

Exporters Fail to Ship Export Allocation in Time

Given that the allocation of the export quota was on first-come, first-served basis, several exporters booked large quantities of the quota through the online application process but were unable to execute the shipments prior to the deadline. With less than ideal harvest conditions during October/November due to late rains in the major cotton exporting states of Gujarat and Andhra Pradesh, and differences of opinion between ginner and exporters over pricing in the volatile cotton market, exporters had some difficulty sourcing cotton for export. The TCO is in the process of compiling the actual exports against the EARC issued to exporters. It is estimated that actual shipments against the quota were around 2.34 million bales (3.0 million Indian bales), leaving approximately 1.7 million bales (2.5 million Indian bales) of unshipped exports as of December 15, 2010.

Government Sets New Procedures for Exports of Unshipped Export Quota

On December 16, 2010, the Government of India announced that all unused EARC would be canceled and exporters would have to re-apply for the unutilized balance of the export quota through the Directorate General of Foreign Trade (DGFT) instead of the Textile Commissioner's Office. Subsequently on December 29, 2010, the DGFT announced the new procedures for applying for EARC against the portion of the export quota that could not be shipped by December 15, 2010. (<http://dgftcom.nic.in/>; select 'Circular'; select 'Circulars 2010-2011'; and select 'Circular No 09(RE-2010)/2009-14'). Registration requirements have been modified in an effort to better allocate the balance of the export quota.

Highlights of the New Procedures:

- The TCO will calculate the actual export volume through December 15, 2010 and the DGFT will accept applications for the remaining balance of the export quota against which exporters may apply for EARC. Comment: The total quota of 4.3 million bales is unchanged.
- Exporters may register their cotton export contracts from December 31, 2010 to January 6, 2011.
- The DGFT will pro-rate export registrations against the unshipped quota balance in an effort to prevent a limited number of companies from capturing the majority of the remaining quota. Exporters who did not export their

EARC before the December 15 deadline will have their subsequent pro-rated allocation reduced by the percentage of their unused EARC. For example, if an exporter applied for EARC of 50,000 bales for shipment before December 15, but only shipped 25,000 bales, his next EARC allocation will be reduced by 50 percent.

- DGFT will announce the initial EARC allocation by January 10, 2011. The export period will be 30 days from the issuance of the registration certificate or February 25, 2010, whichever is earlier.
- Failure to export the new allocated quantity within the stipulated timeframe will result in financial penalties and could result in debarment from future allocations.

MY 2010/11 Exports Unchanged

The MY 2010/11 (August/July) export estimate remains unchanged at 4.8 million bales. A decision regarding any possible increase in the current export quota is not expected until after the government has an opportunity to reassess the size of the crop and the overall market situation. The Cotton Advisory Board is expected to meet in mid-January to assess the crop. At this stage, given strong domestic cotton prices and relatively tight domestic supplies, an increase in the quota appears unlikely over the next few months. The government may allow additional quota later in the season, but the shipment of the additional quota could spill over to the early part of MY 2011/12.

Production Prospects Unchanged

The estimate of India's MY 2010/11 cotton production is unchanged at a record 26.0 million bales, nearly 13 percent higher than last year's crop. Based on the latest provisional planting estimates compiled by the Ministry of Agriculture, MY 2010/11 area is forecast at a record 11.0 million hectares compared to last year's 10.3 million hectares.

The previous strong optimism about MY 2010/11 crop prospects has been tempered by the prolonged unseasonal rains (October-November) in the major cotton producing states of Gujarat and Andhra Pradesh that adversely affected early pickings. Industry production estimates currently range from 24.0 million bales to 27.0 million bales. The Cotton Advisory Board is expected to meet in January to review its initial (made in August) forecast of 25.4 million bales for MY 2010/11.

Market Arrivals Gain Pace

Unseasonal rains during October/November adversely affected initial pickings of cotton in some states, but harvest is now progressing well under favorable weather conditions. Consequently, the early season market arrivals were relatively slow against the forecast crop size when compared to previous years. Market sources report that recently rising market prices are also encouraging farmers to hold on to their cotton in the hope of even higher prices. Market arrivals gained pace from mid-December and cumulative market arrivals through January 2, 2011 are estimated at 10.7 million bales, about 8 percent higher compared to the same period a year ago. (http://www.cotcorp.gov.in/current_cotton.asp). Current daily arrivals are estimated at 210,000 bales per day compared to 191,000 bales last year. Market sources expect the market arrivals to continue through April/May, about one month longer than normal in the major cotton growing states.

Prices Continue Upward Trend on Strong International Prices

Despite the recent surge in cotton arrivals, market prices firmed up further in December (see Table 2) on strong international prices and improved off take by domestic mills. Cotton prices for the commonly traded varieties are currently ranging from \$1.20 to \$1.26 per lb., about 58 to 66 percent higher than a year ago. Market sources report that the domestic cotton prices are about 10 percent lower than prices of comparable international cotton.

Consumption Raised Marginally

The MY 2010/11 consumption estimate has been raised to 21.2 million bales due to strong domestic and export demand. The official provisional consumption estimate for the first quarter of MY 2010/11 points to a 12 percent increase in consumption over the same period a year ago. Firm prices are expected to dampen consumption growth during the balance

of the marketing year.

Based on the latest official monthly consumption estimates (see Table 3), MY 2009/10 consumption has been raised marginally to 19.7 million bales.

STATISTICAL TABLES

Table 1: Commodity, Cotton (480 lb bales), PSD
(Area in Thousand Hectares, and Other Figures in 480 lb. bales)

Cotton India	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Aug 2008		Market Year Begin: Aug 2009		Market Year Begin: Aug 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	9,406	0	10,329	0	11,000
Area Harvested	9,406	9,406	10,260	10,329	11,000	11,000
Beginning Stocks	5,629	5,629	8,919	8,919	6,669	6,379
Production	22,600	22,600	23,200	23,110	26,000	26,000
Imports	800	800	600	600	500	500
MY Imports from U.S.	0	190	0	180	0	200
Total Supply	29,029	29,029	32,719	32,629	33,169	32,879
Exports	2,360	2,360	6,550	6,550	4,800	4,800
Use	17,750	16,300	19,500	18,145	21,000	19,500
Loss	0	1,450	0	1,555	0	1,700
Total Dom. Cons.	17,750	17,750	19,500	19,700	21,000	21,200
Ending Stocks	8,919	8,919	6,669	6,379	7,369	6,879
Total Distribution	29,029	29,029	32,719	32,629	33,169	32,879

Note: Production figures in the table include 937,000 bales of loose cotton.

Table 2: Month-End Prices of Popular Varieties
(Rupees per Metric tons)

Year	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2009/10						
Aug	66925	63832	62426	64957	68050	93077
Sept	65801	59614	60739	62989	66644	92514
Oct	68613	62145	61583	66925	66644	92514
Nov	73112	68331	70581	73112	75924	120916
Dec	68894	70862	73112	76767	78455	113886
Jan	65519	70300	70581	73112	76486	112480
Feb	61864	71143	73393	76205	77611	112480
Mar	59330	75360	76490	79860	na	116700
Apr	61300	76490	75920	77890	na	122320
May	67490	82670	80140	83520	na	119510
Jun	66360	80980	80140	83520	na	115290
Jul	66930	81830	80140	83800	na	116700

2010/11						
<i>Aug</i>	75080	91950	92800	96170	102640	122320
<i>Sept</i>	77330	99830	102640	106010	115290	127950
<i>Oct</i>	78740	107700	116700	118670	122320	140600
<i>Nov</i>	85770	107700	112480	118100	120920	140600
<i>Dec</i>	98140	117540	118670	120920	123730	149040

Source: Cotton Association of India, Mumbai

(http://www.caionline.in/spot_rates.asp)

Table 3: Cotton Consumption (Mills & Small Spinning Sector) by Month
(Million U.S. Bales)

Month\Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Aug	1.350	1.402	1.448	1.376	1.451	1.601
Sept	1.186	1.400	1.408	1.320	1.428	1.605
Oct	1.206	1.353	1.430	1.291	1.416	1.611
Nov	1.178	1.391	1.323	1.323	1.442	
Dec	1.277	1.444	1.473	1.404	1.522	
Jan	1.281	1.423	1.448	1.333	1.526	
Feb	1.190	1.336	1.416	1.267	1.469	
Mar	1.342	1.436	1.441	1.367	1.562	
Apr	1.278	1.410	1.404	1.337	1.559	
May	1.312	1.397	1.480	1.392	1.579	
Jun	1.309	1.394	1.448	1.406	1.553	
Jul	1.361	1.438	1.444	1.482	1.638	
TOTAL	15.268	16.823	17.163	16.298	18.145	4.816

Source: The Textile Commissioner's Office (<http://www.txcindia.com/html/domestic%20%20sub.htm>)